

STATE TREASURER'S 2004 POLICY GOALS AND INITIATIVES

POLICY GOALS

California State Treasurer Phil Angelides was sworn into office on January 4, 1999 and began his second term on January 6, 2004. As the State's chief investment officer, his key goals have been to protect taxpayers and the financial security of California families, to expand educational opportunities to strengthen California's economy, and to invest in California communities and in a cleaner environment.

What follows is a brief summary of the major 2004 policy initiatives that the Treasurer undertook in pursuit of these goals. The *State Treasurer's Policy Goals and Initiatives* for the years 1999-2003, as well as this document, can be found online at www.treasurer.ca.gov.

Launched *Green Wave* Initiative to Bolster Pension Funds' Returns, Create Jobs, Clean Up Environment

California State Treasurer Phil Angelides launched the landmark *Green Wave* environmental investment initiative in February 2004. This initiative calls on the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) to implement a multi-pronged investment strategy to bolster their financial returns, create jobs, clean up the environment, and combat global warming. Treasurer Angelides' *Green Wave* urged the pension funds to invest \$1.5 billion in cutting-edge environmental technologies, renewable energy, and environmentally responsible companies; to prod companies to address the financial risks posed by environmental liabilities and global warming; and to reduce energy consumption in their massive real estate holdings.

CalPERS and CalSTRS have taken the following steps to implement the Treasurer's *Green Wave* initiative:

- **Demand Corporate Environmental Accountability and Disclosure.** Calling for a new era of corporate and shareholder environmental responsibility, Treasurer Angelides asked the pension funds to use

their clout in the marketplace to push corporations to improve their environmental operations, address the financial impacts of global warming, and provide meaningful, consistent and robust reporting of their environmental risks and liabilities.

In February 2005, Treasurer Angelides won CalPERS' approval of a new corporate environmental accountability initiative. Under this new initiative, CalPERS will prod companies to better their environmental practices, improving the bottom line for investors and reducing companies' environmental liabilities. CalSTRS voted in July 2004 to make its Environmental Disclosure Initiative a top priority for the coming year. Both pension funds are moving forward with plans to support or co-support shareholder proposals on global warming in 2005, continuing to push companies in which the funds invest to disclose their environmental liabilities, with specific attention to the auto and utilities industries.

- **Target Private Investment in Environmental Technologies.** Treasurer Angelides urged CalPERS and CalSTRS to invest a combined \$500 million in private equity investments, venture capital, and project financing in clean technologies and renewable energy that can provide the pension funds with positive, long-term returns and create jobs and economic growth in California in the years ahead. In March 2004, Treasurer Angelides won CalPERS' approval of an innovative clean technologies investment program, with CalPERS pledging to make an initial investment of up to \$200 million in environmental technology such as renewable energy, fuel cells and waste recycling. And in June 2004, CalSTRS approved the Treasurer's clean technology investment proposal, committing to make an initial investment of up to \$250 million in the clean energy and technology sectors.
- **Invest in Stocks of Environmentally Responsible Companies.** With research showing that many environmentally screened stock funds have matched or outperformed their non-screened counterparts, Treasurer Angelides called on CalPERS and CalSTRS to invest a combined \$1 billion of their stock portfolios in environmentally screened funds through leading investment managers with proven track records. In April 2004, CalPERS, at the Treasurer's urging, approved an initiative to commit up to \$500 million to investments in environmentally screened, sustainable stock funds.
- **Reduce Energy Consumption in Pension Fund Real Estate Holdings.** To implement the final piece of the Green Wave initiative, Treasurer Angelides proposed a landmark energy savings plan for the pension funds' massive real estate holdings in November 2004. The

new energy efficiency initiative called on the State's two pension funds to invest an estimated \$200 million to retrofit their real estate holdings to reduce energy consumption by 20% within five years. By doing so, the pension funds together would save an estimated \$40 million annually in energy costs, achieving a five-year payback of the pension funds' investment and an internal rate of return of approximately 14 percent on that investment over ten years. The retrofit investment also would create approximately 4,300 jobs and reduce energy demand by 72 megawatts, enough power to supply more than 50,000 homes. In December 2004, CalSTRS approved Treasurer Angelides' energy efficiency goal for its \$4.3 billion, 57.5 million square-foot core real estate portfolio, and CalPERS adopted the Treasurer's 20% goal for its \$7.9 billion, 144 million square-foot real estate portfolio.

More information on the Treasurer's Green Wave initiative is available online at www.treasurer.ca.gov/greenwave.

Protected Taxpayers and the Financial Security of California Families

CONTINUED LEADERSHIP ON CORPORATE REFORM

Building on the *Power of the Purse* initiative he launched in 2002, Treasurer Angelides continued fighting in 2004 for meaningful corporate reforms to protect taxpayers, pensioners and their families; to restore integrity to and renew investor confidence in the financial markets; and to foster sustained economic prosperity.

(The Treasurer's 2002 report, *The Power of the Purse: How Investors Can Restore Integrity to Our Financial Markets*, and a chronicle of the Treasurer's actions on corporate reform are available online at http://www.treasurer.ca.gov/Corporate_Reform.)

Here are some of the most significant actions undertaken by the Treasurer in 2004 to advance the cause of corporate reform:

- **Reining in Excessive Executive Pay.** Treasurer Angelides has taken a number of actions to restore rationality to executive pay at the nation's publicly traded corporations. Treasurer Angelides took the following actions on executive pay in 2004:
 - At Treasurer Angelides' urging, CalPERS and CalSTRS, the nation's first and third largest pension funds, made reining in outsized executive pay and curbing golden parachute packages a

top priority in 2005. The two funds will prod corporations to reform excessive executive pay practices, broaden the distribution of their equity compensation plans to more employees, and more clearly link compensation to performance.

- To draw public attention to egregious executive compensation at poorly performing companies and put such companies on notice to reform their compensation plans, in November 2004 Treasurer Angelides unveiled a “Spotlight Four List” of four poorly performing companies whose top executives hauled down the lion’s share of stock options and grants given by the companies. He also called on CalPERS and CalSTRS to take whatever actions are necessary – if the companies do not act on their own – to prod the companies to reform their executive pay practices by curbing excessive compensation, broadening the distribution of their equity compensation plans to more employees, and clearly linking compensation to performance. Those actions could include calling on other institutional investors to join CalPERS and CalSTRS in waging a coordinated proxy ballot campaign in 2005.
- CalPERS, in November 2004, and CalSTRS, in December 2004, also adopted Treasurer Angelides’ proposal that the funds take the lead in setting tough new executive severance policies to assure that severance packages related to mergers and acquisitions are aligned with shareholders’ interests, and consider actions in 2005 against a targeted set of executive compensation and merger plans that do not meet these policies.
- Treasurer Angelides opposed the merger of WellPoint Health Networks, Inc. and Anthem, Inc., which triggered executive severance packages that could reach \$600 million. At Treasurer Angelides’ urging, CalPERS, CalSTRS and major public pension funds around the country – representing more than \$530 million in holdings in WellPoint and Anthem – voted their shares in opposition to the merger because the merger and the resulting excessive payouts were not in the interest of shareholders and consumers at a time when health insurance premiums are skyrocketing in California and across the country.
- **Investment Protection Standards.** In 2003, in the wake of the landmark settlement of enforcement actions by New York State Attorney General Eliot Spitzer and the SEC against 10 large investment banks, Treasurer Angelides – working in cooperation with Spitzer – imposed tough new requirements on all investment banks seeking State business. The new Standards required, among other things, that investment banks separate entirely their research and investment banking practices, including

physical separation and completely separate lines of command, legal and compliance staffs and budgeting. Firms were also required to create “firewalls” between research and investment banking reasonably designed to prohibit improper communications.

By March 31, 2004, all 44 of the firms to which the standards applied had certified their compliance with the Treasurer’s Standards; failure to comply would have meant suspension from doing business with the State.

At the Treasurer’s urging, the Investment Protection Standards were also adopted by CalPERS and CalSTRS for the investment banks that do business with the pension funds.

- **Mutual Fund Protection Principles.** In January 2004, joined by North Carolina Treasurer Richard Moore, New York State Comptroller Alan Hevesi and New York Attorney General Eliot Spitzer, Treasurer Angelides launched a major initiative to protect investors and pensioners, setting down new standards of disclosure and consumer protection for mutual funds that wish to do business with the State. The landmark Mutual Fund Protection Principles, poised to become an industry standard, are designed to restore stability and integrity to a mutual fund industry rocked by reports of fraud, abusive trading practices and conflicts of interest.

At the Treasurer’s urging, CalPERS, CalSTRS and the ScholarShare Investment Board chaired by Treasurer Angelides adopted the Mutual Fund Protection Principles, putting companies on notice that their compliance with the principles would be a factor in being considered for State business.

The mutual fund protection principles call for a wide range of reforms to shareholder disclosure and reporting; mutual fund board structure; management and compensation reporting; and mutual fund disclosure of security holdings, trading costs and accounting of “soft dollar” expenditures.

- **Landmark Mutual Fund Reforms.** In September, 2004, Treasurer Angelides was joined by CalPERS Investment Committee Chair Rob Feckner, CalSTRS Chief Executive Officer Jack Ehnes, and Putnam Investments President and Chief Executive Officer Charles “Ed” Haldeman, Jr., to announce that Putnam Investments had made a groundbreaking commitment to a broad array of new protections and disclosures for its investors, and would launch a review of how they cast their shareholder votes to ensure more reasonable executive pay at publicly traded corporations. As a result of Putnam’s new commitments, the company once again became eligible to compete for business with CalPERS and CalSTRS.

Putnam's reforms came nine months after CalPERS and CalSTRS, at the Treasurer's urging, terminated their combined \$1.5 billion contracts with Putnam in December 2003. At the time, Putnam was embroiled in controversy over its corporate practices, including allegedly engaging in unlawful "market timing" practices.

The reforms agreed to by Putnam set a new standard for the mutual fund industry, going beyond the provisions of their settlement with federal and state regulators, and exceeding requirements imposed on mutual funds by the U.S. Securities and Exchange Commission (SEC).

- **Voting Rights for Shareholders.** In 2004, Treasurer Angelides and his colleagues from across the country, including New York State Comptroller Alan Hevesi and North Carolina Treasurer Richard Moore, continued to fight for the right of shareholders to nominate candidates for the board of directors at the publicly traded companies they own. In May 2004, Angelides, Hevesi, Moore, the chief investment officers of nine other cities and states and public pension fund chiefs called on SEC Chairman William Donaldson to reject massive lobbying efforts by corporate special interests and political pressure from high officials of the Bush Administration, and approve a rule giving shareholders this basic right. In addition, the group of state chief investment officers and public pension fund chiefs announced that they would recruit other institutional investors and investment leaders from across the country to weigh in with the SEC.
- **Disclosure of Corporate Political Contributions.** In August 2004, Treasurer Angelides and ten other top state and local investment officials from across the country called on the SEC to require corporations to disclose political contributions to their shareholders. Although various federal, state, and local laws require candidates and/or contributors to report political contributions at various thresholds, there is no way for shareholders to learn how much the companies they own contribute to political campaigns and causes short of combing through the records of hundreds of jurisdictions.

To promote transparency for investors and promote good corporate governance, the officials called on the SEC to adopt a rule requiring publicly traded companies to disclose their political contributions annually. The disclosure to shareholders, they said, should detail contributions at the national, state, and local levels, to candidates, political parties and their conventions, ballot measure campaigns, issue ad campaigns and all independent political committees, including 527 organizations.

OPPOSED COSTLY DEFICIT BORROWING

To protect taxpayers and California's ability to make critical investments in schools and transportation, Treasurer Angelides opposed Governor Schwarzenegger's continued deficit borrowing. He consistently called on the governor to put in place a fair and truly balanced budget that closed California's \$8 billion structural budget deficit, without relying on continued deficit borrowing or budget gimmicks. California's credit card debt – the amount the state has borrowed to cover deficits - has increased to \$26 billion, a 40 percent increase since Governor Schwarzenegger took office. The Legislative Analyst has projected that by next year repayment on this debt will cost the state more than \$4 billion, more than the State spends to fund the entire University of California system.

SAVED TAXPAYERS MONEY THROUGH RECORD BOND SALE

Although Treasurer Angelides has consistently opposed deficit borrowing, once voters approved the sale of Economic Recovery Bonds, the Treasurer's Office moved forward to carry out the decision of the voters, executing a record-breaking sale that resulted in significant savings for taxpayers. The Treasurer's Office issued the largest one-day bond sale in the history of the tax-exempt market just 64 days following voter approval, locking in borrowing rates that saved taxpayers \$160 million in debt service costs compared to market conditions just one week later.

The bonds had stronger credit ratings than the State's typical General Obligation bonds because they offered double-barreled security, backed by a dedicated revenue stream that Angelides urged legislators to adopt – an irrevocable, ¼-cent state sales tax – as well as the full faith and credit of the State.

FOUGHT FOR BUDGET FAIRNESS

In April 2004, Treasurer Angelides and a group of lawmakers, led by Assembly Budget Committee Chair Darrell Steinberg, proposed immediately closing \$386 million in unjustified corporate tax loopholes, as part of a multi-pronged plan to advance fiscal responsibility, promote budgetary fairness and expand opportunity for all Californians. They also proposed legislation to require annual review of tax loopholes as part of the budget process, a measure passed by the Legislature and ultimately vetoed by the Governor.

As a part of the proposed package, Treasurer Angelides sponsored AB 2584, authored by Assemblymember Judy Chu, to prevent publicly traded U.S. corporations from evading their fair share of California taxes by relocating offshore – in name only – to locales such as Bermuda and the Bahama Islands. The legislation enjoyed bipartisan support, but failed to gain a two-thirds supermajority in the Assembly. Treasurer Angelides and Assemblymember Chu have reintroduced the bill for consideration by the Legislature in 2005.

TAXPAYER FUNDS INVESTED WITH SOLID EARNINGS

Under Treasurer Angelides' leadership, the State's Pooled Money Investment Account (PMIA) earned \$9.7 billion from January 1, 1999 through December 31, 2004. In 2004 alone, the PMIA earned \$900 million. Throughout the Treasurer's tenure, returns on the PMIA's investments have consistently exceeded market benchmarks. The PMIA is comprised of the short-term investment funds of State government and more than 2,700 local jurisdictions.

Within the PMIA is the Local Agency Investment Fund (LAIF), a voluntary program that allows participating cities, counties, school districts and other local agencies to invest funds through the Treasurer's Office. By the end of 2004, LAIF deposits stood at \$19.3 billion, an increase of \$4.7 billion since January 1999 – an expression of confidence by local governments in the Treasurer's money management.

Expanded Educational Opportunities to Strengthen California's Economy

PROPOSED ENDOWMENT TO EXPAND COLLEGE ACCESS

In October 2004, Treasurer Angelides unveiled a groundbreaking proposal for a new "California Hope Endowment" to renew the promise and secure the dream of a college education for every young Californian. The California Hope Endowment would turn neglected and mismanaged public assets – State-owned real estate – into an endowment that would earn financial returns to provide up to \$2 billion over the next decade to fund initiatives like outreach, college preparation and counseling, or scholarships that would help increase the number of young Californians who go to college and obtain degrees.

The Endowment would provide funding over and above the amounts that the State currently spends on higher education, including the amounts that Governor Schwarzenegger has promised in his recent compacts with the University of California (UC) and the California State University (CSU) systems. Endowed initially with \$5 billion in state-owned property, the California Hope Endowment would be the seventh largest university endowment in the country.

Used as financial aid, for example, the Endowment's annual revenues would be enough to provide a full-fee scholarship to 385,000 California community college students, or pay full fees and other costs for 19,000 CSU students each year.

In February 2005, Assemblymember Dario Frommer introduced legislation, AB 593, sponsored by Treasurer Angelides, which would enact the California Hope Endowment proposal into law.

For a complete copy of the Treasurer's California Hope Endowment proposal, visit www.treasurer.ca.gov/calhope.

LED STATEWIDE FIGHT FOR A FAIR BUDGET THAT PROTECTS HIGHER EDUCATION

Treasurer Angelides led a statewide fight to protect our State's public college and universities and California's students from the impacts of Governor Schwarzenegger's higher education budget proposals. The Governor's plans included, among other things, more than \$650 million in cuts to California's public colleges and universities, tuition hikes of greater than 30 percent for undergraduate students and 50 percent for graduate students over the next three years, a 44 percent hike in fees for community college students, cuts to the Cal Grant program, and an \$11.6 million reduction in University of California (UC) research funding. The Schwarzenegger administration also proposed eliminating all state funding for UC and California State University outreach efforts which help disadvantaged students compete for college - after slashing them by 50 percent earlier in 2004.

Treasurer Angelides' coalition, working with the legislature, successfully halted the Governor's attempts to eliminate outreach programs and restored much of the higher education funding that Governor Schwarzenegger sought to cut. The effort included the following, among other things:

- Treasurer Angelides led a statewide effort to highlight the importance of California's renowned public higher education institutions to the State's economy. The Treasurer visited UC, CSU, and community college campuses across the state, pointing out their importance to the future of California.
- Treasurer Angelides joined with a statewide coalition of students and faculty to raise public awareness and rally support for critical higher education investment.
- The Treasurer mobilized high school students to fight the Governor's proposed elimination of state support for outreach programs, including leading a delegation of students to the Capitol to discuss with legislators how outreach programs had helped them prepare for and gain admission to college.

CHARTER SCHOOL FUNDS AWARDED

In 2002, Treasurer Angelides was the first statewide elected official to call for the Legislature to approve a \$25 billion bond authorization to relieve school overcrowding and to repair older schools. As part of the Kindergarten-University Public Education Facilities Bond Acts of 2002 and 2004, the Treasurer spearheaded the carve-out of \$400 million for public charter school expansion and construction. In November 2002, voters approved the initial \$13.05 billion of a \$25.35 billion bond package, including \$100 million for the charter school facilities program. Voters in March 2004 approved the second, \$12.3 billion

piece of the bond act, which provided another \$300 million for charter school facilities.

Under the new Charter Schools Facility Program, the California School Finance Authority (CSFA), chaired by Treasurer Angelides, must determine that charter schools are financially sound before they receive an award from the State Allocation Board (SAB). In 2003, CSFA and the SAB awarded the first funding under the program, providing \$97 billion to help construct or renovate six California charter schools. In 2004, CSFA found 35 charter schools financially sound, and 28 received awards totaling \$277 million from the SAB.

In 2004, the California School Finance Authority also won a \$49.2 million federal grant to help charter schools provide classrooms for students. The grant, from the U.S. Department of Education's State Charter School Facilities Incentive Grants Program, will provide additional funding to supplement the \$400 million Charter Schools Facilities Program.

More information on the Charter Schools Facilities Program is available online at www.treasurer.ca.gov/csfa.

SCHOLARSHARE SAVINGS GROW TO \$1.4 BILLION, SERVING OVER 140,000 CALIFORNIA FAMILIES

The Golden State ScholarShare College Savings Trust, California's tax-advantaged college savings plan, saw continued growth in 2004, with assets invested reaching nearly \$1.4 billion by year's end, up from \$950 million at the end of 2003. Participation in the program also grew significantly over the year, rising from 116,107 participants in 2003 to over 140,000 by the end of 2004.

The ScholarShare program, launched by Treasurer Angelides in October 1999, is administered by the ScholarShare Investment Board, which the Treasurer chairs.

More information on California's Golden State ScholarShare College Savings Trust is available online at www.scholarshare.com.

EXTRA CREDIT PROGRAM HAS HELPED OVER ONE THOUSAND CALIFORNIA TEACHERS PURCHASE THEIR FIRST HOMES

The Treasurer's Extra Credit Teacher Home Purchase Program is designed to attract and retain qualified teachers and key staff to serve in the toughest-to-teach, low-performing schools. The program provides low-interest home loans or tax credits, coupled with down-payment assistance, for credentialed teachers and other designated school personnel who make a three-year commitment to help improve such schools. By the end of 2004, the program had provided over 1,000 teachers and their families with assistance in purchasing their first home.

The Extra Credit Program is administered by the California Debt Limit Allocation Committee, chaired by the Treasurer. *More information on the Extra Credit Program is available online at www.treasurer.ca.gov/cdlac.*

Invested in California Communities and a Cleaner Environment

AFFORDABLE HOUSING FOR CALIFORNIA FAMILIES

The California Debt Limit Allocation Committee (CDLAC) and the California Tax Credit Allocation Committee (CTCAC), both chaired by Treasurer Angelides, provided financing and tax credits for the construction and renovation of nearly 16,000 affordable rental housing units for California families and seniors in 2004, and for over 110,000 units since January 1999. Under the Treasurer's *Smart Investments* initiative, priority is given to funding projects that take into account smart growth goals, such as energy efficiency, location in community revitalization areas, and proximity to transit, schools, and parks.

More information on the Treasurer's affordable housing initiatives is available online at www.treasurer.ca.gov/cdlac and www.treasurer.ca.gov/ctcac.

NEW URBAN HOUSING FUND FOR CALIFORNIA CITIES

In 2004, Treasurer Angelides launched a new Urban Housing Fund within California Debt Limit Allocation Committee (CDLAC), which the Treasurer chairs, to help cities with their efforts to fund affordable housing. The Fund is a special pool of bond funds the Treasurer asked CDLAC to set aside to make low-cost financing available to communities that sorely need affordable housing. The first city to receive a bond award was San Jose, which received \$75 million to help develop nearly 2,000 affordable housing units in one of the costliest housing markets in the State.

The Urban Housing Fund will result in the development of more affordable housing units at more affordable rents for California families. With financing through the Fund, communities will also be able to "recycle" bond proceeds into new loans, creating even more opportunities for affordable housing.

The California Debt Limit Allocation Committee, chaired by State Treasurer Phil Angelides, administers the Urban Housing Fund. More information is available online at www.treasurer.ca.gov/cdlac.

GARVEE BONDS HELP SPEED CONGESTION RELIEF PROJECTS

The State Treasurer's Office sold the first ever GARVEE bonds in 2004 – a \$615 million issue – to help accelerate the completion of eight critical road projects throughout the state that would otherwise not have been built for years.

Treasurer Angelides sponsored legislation in 2000 to authorize the use of GARVEE bonds to speed up vital, congestion-reducing transportation projects throughout the state. GARVEE bonds are repaid from future federal highway reimbursements.

BOND FUNDING PROVIDED FOR ENERGY EFFICIENCY EFFORTS

The Treasurer's Office issued \$28 million in California Consumer Power and Conservation Financing Authority bonds to provide additional funding to the California Energy Commission for energy efficiency and power generation projects throughout the State, such as photovoltaic panels, thermal energy storage, and energy efficient lighting and heating and cooling systems on public buildings throughout the state.

LEGISLATION WILL PUT HYBRID VEHICLES IN THE "FAST LANE"

Treasurer Angelides sponsored AB 2628, authored by Assemblymember Fran Pavley, to open California's high-occupancy vehicle lanes to hybrid and other fuel-efficient, advanced technology vehicles. The law will allow hybrid and other advanced-technology vehicles that meet tough emissions and fuel efficiency standards (45 miles per gallon or greater) access to California's high occupancy vehicle (HOV) lanes, or carpool lanes, regardless of the number of people in the vehicle. The measure is designed to help clear California's air, reduce greenhouse gas emissions, and to encourage automakers to make more hybrid and advanced technology vehicles available to California consumers. The measure was signed into law in October, and will become effective after congressional approval.

BOND FUNDING MADE AVAILABLE TO BUILD SCHOOLS, OTHER PUBLIC PROJECTS

In 2004, the Treasurer's Office issued \$6.4 billion in General Obligation bonds for the State of California to provide funds to build local schools, provide parks and open space, and ensure clean water in our rivers and lakes, among other uses. Since 1999, more than 6,700 school repair and construction projects have benefited from nearly \$16.5 billion in school bonds sold by the Treasurer's Office.

CALCAP PROGRAM EXPANDS SMALL BUSINESS LENDING, CREATES JOBS

In 2004, Under Treasurer Angelides' leadership, the California Capital Access (CalCAP) Program continued to expand its lending to bolster California's small businesses and create jobs. The CalCAP program is a partnership between the State and 34 lenders throughout California to make capital available to create and expand small businesses.

Since taking office, Treasurer Angelides has made a particular effort to increase the number of "microloans" – loans as small as \$500 and generally less than \$40,000 – that CalCAP makes available to the State's small businesses. These

loans provide the seed capital needed to launch and expand the small business enterprises critical to California's economic growth.

During the year, 557 CalCAP loans, totaling over \$50 million, were made to California businesses, creating or preserving nearly 3,000 jobs. Of these loans, 322 or 58% were microloans.

Since 1999, 2,626 CalCAP loans totaling \$539,509,756 have been made to California businesses, creating or preserving nearly 17,000 jobs. Under Angelides' leadership, microloans have increased from just 7.2 percent of CalCAP's lending in 1999 to more than half of the program's lending in 2004.

The CalCAP program is administered by the California Pollution Control Financing Authority (CPCFA), chaired by the Treasurer. *More information on the CalCAP program is available online at www.treasurer.ca.gov/cpcf.*

NEW PARTNERSHIP WITH SILICON VALLEY BUSINESS LEADERS TO BOOST SMALL BUSINESS GROWTH

Under Treasurer Angelides' leadership, the California Pollution Control Financing Authority (CPCFA) launched a new partnership with successful business executives to expand an innovative small business advisory program that has proven successful in helping small businesses grow and create more jobs for Californians. Pacific Community Ventures (PCV), a non-profit community development firm founded by leading Silicon Valley executives, received a \$1.5 million award and will generate another \$1.5 million in private donations to match the State award. PCV will use the \$3 million to expand its successful small business advisory program in the Bay Area and bring its services to Los Angeles, San Diego and the Central Valley.

Under this new partnership, PCV's network of experienced, successful business executives will mentor small- and medium-sized businesses with diverse ownership located in underserved neighborhoods to help them expand, create more good jobs, generate new products and services, and bring real economic growth to the businesses, their workers, and the communities where they are located.

EXPANDING HEALTH CARE ACCESS

Recognizing the tremendous need for healthcare in underserved communities, and the difficulties community clinics face in accessing needed capital, the Treasurer has put an emphasis on expanding financing to community health clinics. As Chair of the California Health Facilities Financing Authority (CHFFA), Treasurer Angelides continued in 2004 to provide these clinics access to capital through bond financing, the HELP II program, and the HealthCAP program. Highlights of CHFFA's 2004 activities include:

- Bonds issued through the Authority provide tax-exempt capital to qualified non-profit health facilities throughout the State. In 2004, CHFFA issued bonds totaling \$827 million, an increase from the \$718 million issued in 2003.
- The HELP II program provides low-cost loans to assist small and rural health facilities expand health care services. In 2004, CHFFA made 15 HELP II loans totaling \$5.2 million to community health facilities. These loans assisted facilities that provided nearly 900,000 annual visits to vulnerable Californians seeking health care services.
- The HealthCAP program, a partnership between CHFFA and NCB Development Corporation, assists health facilities, which have had difficulty obtaining adequate financing for their needs, access the capital markets. In 2004, HealthCAP made 6 loans to clinics totaling \$3 million.

More information on the California Health Facilities Financing Authority is available online at www.treasurer.ca.gov/chffa.

CONTINUED PROGRESS ON DOUBLE BOTTOM LINE INITIATIVES

In 2004, sustained progress was made in implementing the Treasurer's *Double Bottom Line: Investing in California's Emerging Markets* initiative. By the end of 2004, this initiative had directed more than \$11 billion in investment capital to spur economic progress in California's inner cities and underserved communities. Capital investment has been made available for home mortgages, infill development, and business expansion – all with the “double bottom line” goals of solid returns for the State's pension and investment funds and broadened economic opportunity in California communities.

Investment highlights include:

- The Pooled Money Investment Account (PMIA), managed by the State Treasurer, has increased deposits in California community lending institutions, including banks and credit unions, by \$4.4 billion since January 1999. As of December 31, 2004, the PMIA had \$6.4 billion on deposit with 92 community lenders. The number of participating lenders has increased from 36 to 92 since Treasurer Angelides took office.
- The PMIA invested \$303 million in Community Reinvestment Act (CRA) eligible California-only mortgages in 2004, bringing the total invested since 1999 to \$2 billion.
- The PMIA invested \$194 million in securitized California small business loans in 2004, bringing the total purchased since 1999 to \$667 million.

- CalPERS and CalSTRS have upped their investment allocations to urban, inner-city real estate ventures to over \$ 4.4 billion, including \$595 million for affordable housing.
- CalPERS and CalSTRS have now allocated over \$800 million for private equity investment to expand business opportunities in underserved rural and urban communities in California.

Initial returns on *Double Bottom Line* programs have been positive. For example, the PMIA's investments in CRA home mortgages are currently yielding 5.59 percent annually. As another example, CalPERS' longest standing urban investment partnership has achieved an annualized return of 14.09 percent since inception. In November 2004, CalPERS projected that it would earn annualized returns of 13 to 20 percent from its California Urban Real Estate partnerships over a ten-year investment period.

More information on the Treasurer's *Double Bottom Line* initiative is available online at <http://www.treasurer.ca.gov/publications/DBL.htm>.